

**REPORT OF THE AUDIT OF THE  
ROCKCASTLE COUNTY  
CLERK**

**For The Year Ended  
December 31, 2008**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE ROCKCASTLE COUNTY CLERK**

**For The Year Ended  
December 31, 2008**

The Auditor of Public Accounts has completed the Rockcastle County Clerk's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$29,242 from the prior year, resulting in excess fees of \$412 as of December 31, 2008. Revenues increased by \$71,805 from the prior year and expenditures increased by \$41,843.

#### **Lease Agreements:**

The County Clerk's office is committed to two lease agreements with a total outstanding balance of \$18,185 as of December 31, 2008.

#### **Report Comments:**

- 2008-01** The County Clerk's Expense Allowance Should Be Disbursed In Twelve Equal Payments
- 2008-02** The County Clerk Should Maintain Adequate Time Records For All Employees
- 2008-03** The County Clerk Should Not Pay Employees A Lump Sum Expense Allowance
- 2008-04** The County Clerk Should Improve Internal Controls Over Receipts And Disbursements

#### **Deposits:**

The County Clerk's deposits were insured and collateralized by bank securities or bonds.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive  
The Honorable Norma Houk, Rockcastle County Clerk  
Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Rockcastle County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 5, 2009 on our consideration of the Rockcastle County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Buzz Carloftis, Rockcastle County Judge/Executive  
The Honorable Norma Houk, Rockcastle County Clerk  
Members of the Rockcastle County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2008-01** The County Clerk's Expense Allowance Should Be Disbursed In Twelve Equal Payments
- 2008-02** The County Clerk Should Maintain Adequate Time Records For All Employees
- 2008-03** The County Clerk Should Not Pay Employees A Lump Sum Expense Allowance
- 2008-04** The County Clerk Should Improve Internal Controls Over Receipts And Disbursements

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Rockcastle County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen  
Auditor of Public Accounts

August 5, 2009



ROCKCASTLE COUNTY  
NORMA HOUK, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

State Fees For Services	\$	6,588
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HB 537 - Revenue Supplement		60,610
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Fiscal Court		46,480
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	505,843
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Usage Tax		521,443
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Tangible Personal Property Tax		924,988
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Title Applications		1,332
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Other-

Marriage Licenses		5,929
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Occupational Licenses		158
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Deed Transfer Tax		25,674
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Delinquent Tax	106,537	2,091,904
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		17,352
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Real Estate Mortgages		23,555
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Chattel Mortgages and Financing Statements		34,624
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Powers of Attorney		2,483
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All Other Recordings		25,042
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Charges for Other Services-

Candidate Filing Fees		500
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Copywork	1,726	105,282
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Other:

Postage		328
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Federal Tax Liens		300
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Miscellaneous	1,115	1,743
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Interest Earned		644
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Total Revenues	\$	2,313,251
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The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY  
 NORMA HOUK, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2008  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 348,972

Usage Tax 505,664

Tangible Personal Property Tax 381,342

Licenses, Taxes, and Fees-

Affordable Housing Trust 17,640

Delinquent Tax 13,787

Legal Process Tax 14,489 \$ 1,281,894

Payments to Fiscal Court:

Tangible Personal Property Tax 59,950

Delinquent Tax 10,937

Deed Transfer Tax 24,390

Occupational Licenses 120 95,397

Payments to Other Districts:

Tangible Personal Property Tax 436,810

Delinquent Tax 54,197 491,007

Payments to Sheriff 1,275

Payments to County Attorney 15,302

Operating Expenditures:

Personnel Services-

Deputies' Salaries 237,369

Employee Benefits-

Employer's Share Social Security 22,572

Contracted Services-

Indexing Service 49,944

Contract Labor 3,592

Advertising 184

Printing and Binding 2,298

Supplies and Materials-

Office Supplies 9,933

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY  
 NORMA HOUK, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2008  
 (Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Other Charges-

Conventions and Travel	\$	2,520	
Dues		660	
Postage		4,358	
Equipment Rental		11,880	
Refunds		844	
Bond		267	
Maintenance and Repairs		398	\$ 346,819

Total Expenditures			\$ 2,231,694
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Net Revenues			81,557
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Less: Statutory Maximum			74,020
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Excess Fees			7,537
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Less: Expense Allowance		3,600	
Training Incentive Benefit		3,525	7,125

Excess Fees Due County for 2008			412
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Payment to Fiscal Court - March 20, 2009			412
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Balance Due Fiscal Court			\$ 0
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The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ROCKCASTLE COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2008  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Rockcastle County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Rockcastle County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ROCKCASTLE COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2008  
(Continued)

Note 4. Lease Agreements

A. Great America Leasing Corporation

The office of the County Clerk was committed to a lease agreement with Great America Leasing Corporation for a copy machine. The agreement requires a monthly payment of \$187 for 36 months to be completed in January 2010. The total balance of the agreement was \$6,739 as of December 31, 2008.

B. Xerox Capital Services

The office of the County Clerk was committed to a lease agreement with Xerox Capital Services for a copy machine. The agreement requires a monthly payment of \$204 for 60 months to be completed in September 2013. The total balance of the agreement was \$11,446 as of December 31, 2008.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive  
The Honorable Norma Houk, Rockcastle County Clerk  
Members of the Rockcastle County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Rockcastle County Clerk for the year ended December 31, 2008, and have issued our report thereon dated August 5, 2009. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Rockcastle County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations as item 2008-04 to be a significant deficiency in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Rockcastle County Clerk's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2008-01, 2008-02, and 2008-03.

The Rockcastle County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Rockcastle County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

August 5, 2009

## COMMENTS AND RECOMMENDATIONS



ROCKCASTLE COUNTY  
NORMA HOUK, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

STATE LAWS AND REGULATIONS:

**2008-01** The County Clerk's Expense Allowance Should Be Disbursed In Twelve Equal Payments

During the test of payroll, we noted the Rockcastle County Clerk's full expense allowance was paid in four payments over the period of June 2008 to December 2008. KRS 64.017 requires "the county clerk of any county shall receive a maximum annual expense allowance of \$3,600 to be paid from the fees collected by the clerk." And KRS 64.710 requires "No public officer or employee shall receive or be allowed or paid any lump sum expense allowance, or contingent fund for personal or official expenses, except where such allowance or fund either is expressly provided for by statute or is specifically appropriated by the General Assembly." We recommend the Rockcastle Clerk follow KRS 64.017 and KRS 64.710.

*County Clerk's Response: "Corrective measures have been implemented. Beginning with 2009 year, Clerk makes 12 equal payments – one per month – for expense allowance."*

**2008-02** The County Clerk Should Maintain Time Records For All Employees

During the test of payroll, we noted the Rockcastle County Clerk's Bookkeeper did not submit timesheets to support payment for hours worked and that overtime was not always accurately recorded. KRS 337.320(1) (a, b, c) requires that "every employer shall keep a record of: (a) The amount paid each pay period of each employee; (b) the hours worked each day and each week by each employer; (c) and such other information as the executive director requires." We recommend that all employees maintain accurate timesheets. We further recommend that all overtime hours be accurately reflected.

*County Clerk's Response: "Time sheets are now being kept – even for bookkeeper who is a salaried employee. Employees paid hourly have always kept timesheets."*

**2008-03** The County Clerk Should Not Pay Employees A Lump Sum Expense Allowance

During the test of payroll, we noted that the bookkeeper's weekly salary included a \$75 expense allowance. Complete and adequate documentation was not maintained to support the payment for the expense allowance. KRS 64.710 states, "No public officer or employee shall receive or be allowed or paid any lump sum expense allowance, or contingent for personal or official expenses, except where such allowance or fund either is expressly provided for by statute or is specifically appropriated by general assembly." Additionally, retirement benefits were withheld from the aforementioned payments. KRS 78.610 states, "Each employee shall, commencing on August 1, 1990, contribute, for each pay period for which he receives compensation, five percent (5%) of his creditable compensation unless he did not elect membership pursuant to KRS 61.545(3)." We recommend the Rockcastle County Clerk not pay a lump sum expense allowance to any employee. We further recommend that adequate supporting documentation be maintained for any reimbursement, and retirement benefits not be withheld from the reimbursement.

*County Clerk's Response: "Corrective steps have been taken."*

ROCKCASTLE COUNTY  
NORMA HOUK, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2008  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS:

**2008-04** The County Should Improve Internal Controls Over Receipts And Disbursements

As a result of our audit, we noted a lack of segregation of duties exists over the following accounting functions: receipts collection and processing, recording-keeping, disbursement processing, report preparation and reconciliations. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

The County Clerk prepares and deposits the receipts, prepares and signs the checks, and reviews the receipt and disbursement ledgers as well as the quarterly reports, prepared by the bookkeeper. One deputy in the County Clerk's office, prepares the daily checkout sheet, and reconciles the License and Transfer, Usage, and Tangible Personal Property Tax reports.

To adequately protect employees in the normal course of performing their assigned functions and to protect the County Clerk against inaccurate financial reporting, we recommend the Clerk separate the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this.

*County Clerk's Response: "I feel I have complete control over the county clerk's office. Duties cannot be segregated due to limited number of deputies."*

